



Public Employee Retirement System of Idaho

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m. March 30, 2004. The following members were present:

Jody B. Olson
Susan K. Simmons
J. Kirk Sullivan
Dennis Johnson
Pamela Ahrens

Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Chief Investment Officer Robert Maynard, and Management Assistant Joanne C. Ax were also in attendance. The electronic projection of materials and documents discussed in the meeting was handled by Betsy Griffith. Other persons attending portions of the meeting were:

Rod MacKinnon
William Palumbo
Drew Black
Brian McGrath
Casey Maslonka
Dennis Fitzpatrick
Charlie Brown
Jim Coleman
Doug Bates
Brent Nye
Dona VanTrease
Jim Shakelford
Kathy Pehlan
Matt Freeman
Richelle Sugiyama
John R. Doner

Mountain Pacific Investment Advisors
Mountain Pacific Investment Advisors
DB Fitzpatrick & Co.
DB Fitzpatrick & Co.
DB Fitzpatrick & Co.
DB Fitzpatrick & Co.
REAI
PERC – Retired Teachers
Clearwater Advisors
Boise Schools
IPEA
IEA
IEA
LBO
PERSI
PERSI

EXECUTIVE SESSION

Chairman Olson noted for the record the necessity of holding an executive session to discuss matters exempt from disclosure as provided in Chapter 3, Title 9, Idaho Code and that Idaho Code §67-2345(1)(b) authorizes the same. By motion duly made by Trustee Ahrens and seconded by Trustee Johnson, and unanimously approved, the Board went into executive session at 8:33 a.m.

REGULAR SESSION

At 9:05 a.m., the Board reconvened in open session. Chairman Olson told those present that in the Executive Session the Board had conducted the annual performance review of Executive Director Alan H. Winkle. Trustee Johnson said the Trustees appreciate Mr. Winkle's service. He has done an excellent job and deserves high marks for his relationships with the public, with constituent groups and the Board. The Trustees considered the allowable bonus and a merit increase. By motion duly made by Trustee Johnson and seconded by Trustee Sullivan, the Board awarded the maximum \$1,000 bonus and a 6% merit salary increase. Another evaluation of Mr. Winkle's performance will be conducted to consider an additional increase for the new fiscal year which begins July 1, 2004. The motion passed with affirmative votes from Trustees Sullivan, Johnson and Olson. Trustee Simmons abstained; Trustee Ahrens voted no.

OLD BUSINESS

Approval of the Minutes: By motion duly made by Trustee Simmons and seconded by Trustee Johnson, the Board unanimously approved the minutes of the February 24, 2004, regular meeting of the Retirement Board as submitted.

PORTFOLIO

Asset Allocation Update

Mr. Maynard reviewed several slides prepared by Callan Associates that modeled PERSI's long term policy and provided capital market projections, a correlation matrix and an efficient frontier graph. Mr. Maynard said this report is useful as one tool to monitor fund performance. Our current allocations bring us very close to the efficient frontier graph and no major policy changes are recommended.

Monthly Portfolio Update: Mr. Maynard discussed his investment report dated March 28 2004, which was an update from a version previously provided to the Board. In the report, Mr. Maynard noted that the fund is down 1.1% since the last Board meeting and is up 17.1% for the fiscal year to date. The previous day's markets actually brought the fund back to about where it was at the last meeting. He reviewed individual manager performance; Schroder Emerging Markets have the highest return for the fiscal year to date of 46.0%. PERSI's overall performance continues to outperform the underlying policy benchmarks (the indexed returns).

All managers are either within their expected characteristics or have reasonable explanations for slight deviations. All managers are also performing within expectations given the markets.

Mr. Maynard expects a report next week from Callan regarding the equity manager search. When managers are hired we will be rebalancing.

The Choice Plan is performing as expected. The Dreyfus Premier Midcap Stock R Fund is underperforming its benchmark; Mr. Maynard will continue to monitor.

Private Equity Report: Mario Gianinni & Paul Yett of Hamilton Lane Advisors reviewed the Private Equity Portfolio returns. Providence Equity Partners returned about half of their investment capital. Investors are refinancing to take advantage of the very low short term interest rates. More start up companies are electing not to go public, believing they can do better under the private company regulations. Mr. Gianinni believes private equity will continue to do well in the coming years. He is meeting with McCown De Leeuw this week; he expects that investment return to remain negative. Mr. Gianinni reviewed the top private equity investment holdings and recent and upcoming distributions. While the majority of PERSI's Private Equity investments are in North America, he expects more opportunities soon in Europe. Trustee Simmons asked why she should feel good about the Private Equity Portfolio and what Trustees should expect in the future. Mr. Gianinni said when the public fund market was soaring, this portfolio did not meet expectations; now, however, the distributions are moving towards exceeding expectations. Chairman Olson asked whether Idaho Power's exit from Ida West will affect PERSI. Mr. Maynard said it will not.

Manager Comments: The Chairman invited managers who were present to comment on the markets and the economy. Regarding interest rates, Doug Bates said job growth is key. Because it is an election year, he expects interest rates to stay near their current level. Brian McGrath said people are becoming contractors or starting small businesses which leaves them out of those counted in the new jobs numbers. He thinks the underlying inflation rate is going up. Bill Palumbo said corporate decision makers appear resistant to hiring. Companies are using temporary and contractor help as well as overtime for current employees instead of hiring new employees. Returning from a recent conference, Investment Officer Richelle Sugiyama said our broad allocation and recent performance is in line with peer funds.

As the meeting recessed for a short break, Chairman Olson again congratulated Executive Director Winkle on a positive performance review by the Board.

FISCAL

Update and Expense Reports: The meeting reconvened at 10:15 a.m. Financial Officer James Monroe had previously provided a memorandum dated March 23, 2004, to the Trustees which summarized current fiscal

items of interest. Because Mr. Monroe was absent, Mr. Winkle and Senior Accountant Rhonda Yadon reviewed highlights and offered to answer questions regarding these reports. The legislature passed the PERSI budget and included the full funding for Business Process Re-engineering decision unit and the 2% increase in employee compensation. Mr. Winkle said the legislature recommended that agencies utilize salary savings to address employee compensation; PERSI awarded one-time bonus payments to employees using salary savings from FY04. Additionally, merit increases will be implemented several weeks before the ongoing FY05 CEC appropriation funds are available. Staff is very appreciative of the increases. The Administrative and Portfolio expense reports had no unusual entries. Expenses remain below the amount budgeted for portfolio administration.

Jon Mason Appeal of Director's Decision: Copies of Mr. Mason's appeal to the Board of the Director's decision had previously been distributed to the Board. Mr. Winkle reviewed the facts of the case noting that it is unfortunate that there was apparent miscommunication between Mr. Mason, BSU and PERSI staff. However, the law is very clear that an employee must retire from State employment in order to qualify for the unused sick leave benefit without intervening employment and Mr. Mason did not meet that requirement. Trustee Ahrens suggested that we make additional effort to educate our employers' Human Resource staff so our members do not receive inaccurate information from their employers. Mr. Winkle said we are being proactive and we be mailing information letters to members who are 50 years of age or over and who work for two PERSI employers. Member Services Manager Judy Aitken added that this topic is being highlighted in meetings around the state with PERSI employers, as well as being included in employer newsletters. By motion duly made by Trustee Johnson and seconded by Trustee Simmons, the Board unanimously affirmed the Director's decision to deny Mr. Mason's request for unused sick leave hours related to his employment at BSU.

John B. Smyth Appeal of Director's Decision: Copies of the appeal by Mr. Smyth had previously been provided to the Trustees. Mr. Winkle reviewed the facts of the case, saying Ms. Pearson, the deceased member, was not an active member on or after July 1, 1999. Therefore, her beneficiary is not entitled to benefits enacted on or after that date. Trustee Johnson noted that benefits are accrued during employment, not after, so benefit enhancements after the member ceased employment are not applicable to her account. By motion duly made by Trustee Johnson and seconded by Trustee Sullivan, the Board unanimously affirmed the Director's decision to deny Mr. Smyth's request to pay him the "double" death benefit as beneficiary for Ms. Pearson.

Final Legislative Review – Director Winkle had previously provided a memorandum dated March 22, 2004 regarding legislation concerning PERSI. He discussed the changes saying that SB 1446 is effective now. That bill provides for military service credit from date of active duty to date of death.

Bonner County Merger and Transfer Agreement: Before the next regular meeting of the Board, we expect to be ready to sign the Merger and Transfer Agreement merging the Bonner County defined contribution plan into the PERSI 401(k) Choice Plan. By motion duly made by Trustee Johnson and seconded by Trustee Ahrens, the Board unanimously authorized the Board Secretary to sign the Bonner County Merger and Transfer Agreement with the following contingencies:

1. The Agreement is drafted by the Attorney for Bonner County,
2. It is reviewed and approved by Deputy AG Brad Goodsell,
3. It is reviewed by Mellon Compliance Department to develop the attributes of the plan that must be preserved by the PERSI 401(k) Choice Plan,
4. It is signed by the Bonner County Commissioners and trustees of the plan.

Status Update: Mr. Winkle reviewed his March 23, 2004, memorandum to the Board which provided a summary of the projects in which PERSI is involved. It included a project status of the BPR project, the disaster site backup test at our Coeur d'Alene office, recruitment for a D.C. Plan Specialist, and an update on trading restriction implementation. Mr. Winkle also included a list of legislative follow-up projects he will be working on in the coming months including:

- Researching special service rules for members injured in accidents off the job and covered by a long-term disability plan;
- Clarifying the interaction between the actuarial valuations, grace periods and contribution rate increase amounts and dates;
- Working with university staff to develop a clear and workable definitions for universities in determining ORP and PERSI eligibility for similar positions; and
- Conducting a comprehensive review of the sick leave program and legislation that may be needed to clarify administrative guidance and ensure plan provisions that meet member needs.

OTHER BUSINESS:

Retiree Charlie Brown thanked the Trustees for the retiree COLA and asked them to remember that retiree purchasing power is now .8% under the 100% level. He asked them to consider this if the fund does well in the coming year. Mr. Brown said that while it is a small amount, retirees appreciate it.

Adjournment: There being no further business before the Board, by motion duly made by Trustee Ahrens and seconded by Trustee Sullivan and unanimously approved, the meeting was adjourned at 10:47 a.m.

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director